

CITY OF OSCEOLA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2014

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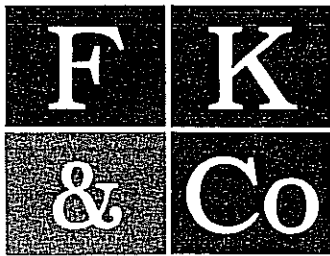
City of Osceola

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Fred P. Diehl	Mayor	January 1, 2014
Chris Dorsey	Council Member	January 1, 2016
Sarah Truitt	Council Member	January 1, 2014
David Walkup	Council Member	January 1, 2016
Dr. George Fotiadis	Council Member	January 1, 2016
Glenn Schaff	Council Member	January 1, 2014
Ty Wheeler	City Administrator/Clerk	Indefinite
Mark Elcock	Attorney	Indefinite
(After January 2014)		
Fred P. Diehl	Mayor	January 1, 2016
Chris Dorsey	Council Member	January 1, 2016
Dan Hopper	Council Member	January 1, 2018
David Walkup	Council Member	January 1, 2016
Dr. George Fotiadis	Council Member	January 1, 2016
Glenn Schaff*	Council Member	January 1, 2018
Ty Wheeler	City Administrator/Clerk	Indefinite
Mark Elcock	Attorney	Indefinite

* - Resigned on May 20, 2014. Position vacant at June 30, 2014.

City of Osceola



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Osceola, Iowa, (City) as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

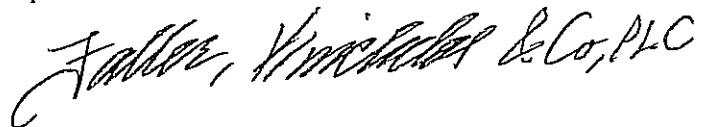
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The financial statements for the nine years ended June 30, 2013 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 30 through 31, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



FALLER, KINCHELOE & CO., PLC

March 31, 2015
Des Moines, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Osceola (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 60.7%, or approximately \$4,006,000 from fiscal year 2013 to fiscal year 2014. Bond proceeds increased by \$4,049,000 due to refinancing of outstanding debt.
- Disbursements of the City's governmental activities decreased by 33.7%, or approximately \$3,980,000, in fiscal year 2014 from fiscal year 2013. Community and economic development disbursements decreased approximately \$3,634,000, which is primarily due to the release of funds to the Clarke County Reservoir Commission in fiscal year 2013.
- The City's total cash basis net position increased 70.2%, or approximately \$2,782,000, from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities increased approximately \$2,822,000 and the cash basis net position of the business type activities decreased approximately \$41,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position present the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into the following activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system. These activities are financed primarily by user charges.
- The Component Units include the Osceola Public Library Foundation, the Osceola Volunteer Firefighter's Association, and the Osceola Water Department, which accounts for the activities of the waterworks.

Fund Financial Statements

The City has three kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and Trust & Agency funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and, 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide separate information for the Sewer Fund, considered to be a major fund of the City.

The required financial statements for proprietary funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

3) Fiduciary funds account for resources held for others. The Fiduciary fund consist of an Agency Fund, Friends of Depot.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$3.273 million to approximately \$6.095 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 662	698
Operating grants, contributions and restricted interest	553	535
Capital grants, contributions and restricted interest	122	314
General receipts:		
Property tax	2,406	2,315
Tax increment financing	536	640
Hotel motel tax	273	247
Local option sales tax	775	853
Gaming wager tax	1,096	872
Other city tax	8	-
Unrestricted interest on investments	33	20
Bond proceeds	4,098	49
Gain on sale of investments	16	-
Miscellaneous	30	59
Total receipts	10,608	6,602
Disbursements:		
Public safety	1,140	1,102
Public works	1,273	1,083
Culture and recreation	792	744
Community and economic development	1,433	5,067
General government	645	792
Debt service	1,458	1,478
Capital projects	1,091	1,546
Total disbursements	7,832	11,812
Change in cash basis net position before transfers	2,776	(5,210)
Transfers, net	46	145
Change in cash basis net position	2,822	(5,065)
Cash basis net position beginning of year (July 1, 2013 restated)	3,273	7,958
Cash basis net position end of year	\$ 6,095	2,893

The City's total receipts for governmental activities increased 60.7%, or approximately \$4,006,000. The total cost of all programs and services decreased approximately \$3,980,000, or 33.7%, with no new programs added this year. The increase in receipts was the result of bond proceeds received due to refinancing of outstanding debt. The decrease in program costs was the result of a one-time release of funds to the Clarke County Reservoir Commission in fiscal year 2013. Generally, program costs will remain between approximately \$7.5 million and \$9 million.

The City maintained a stable property tax rate for fiscal year 2014. Due to an increase in taxable valuation, property tax receipts increased approximately \$91,000 in fiscal year 2014. Property tax receipts are budgeted to remain relatively the same in fiscal year 2015.

The cost of all governmental activities this year was approximately \$7.832 million compared to approximately \$11.812 million last year. However, as shown on the Statement of Activities and Net Position on page 14, the amount taxpayers ultimately financed for these activities was \$6.495 million because some of the cost was paid by those directly benefited from the programs (approximately \$662,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$674,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2014 from approximately \$1,547,000 to approximately \$1,337,000, principally due to decreased capital grants and contributions in fiscal year 2014 compared to fiscal year 2013.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 1,183	1,180
General receipts:		
Miscellaneous	2	-
Total receipts	1,185	1,180
Disbursements:		
Sewer	1,180	1,048
Total disbursements	1,180	1,048
Change in cash basis net position before transfers	5	132
Transfers, net	(46)	(145)
Change in cash basis net position	(41)	(13)
Cash basis net position beginning of year	692	705
Cash basis net position end of year	\$ 651	692

Total business type activities receipts for the fiscal year were approximately \$1.185 million compared to approximately \$1.18 million last year. The increase was due primarily due to the 5% rate increase in fiscal year 2014. The cash balance decreased approximately \$41,000 from the prior year due to capital project outlays. Total disbursements for the fiscal year increased 12.6% to approximately \$1,180,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$6,095,127, an increase of more than \$2,823,000 below last year's total of \$3,272,611. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$8,122 from the prior year to \$1,247,930.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased by \$207,142 from the prior year to \$669,751. The City dispersed TIF funds that were collected in prior years for debt service purposes.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased by \$47,726 during the fiscal year to a total of \$47,496. The primary purpose of this fund is to account for the local option sales tax revenues dedicated to the Clarke County Reservoir Project.
- The Debt Service Fund cash balance increased by \$3,042,671 from the prior year to \$3,042,671. Generally the city maintains a \$0 fund balance at the end of the year; however, in fiscal year 2014 the City refinanced debt and ended the year with \$3,042,647 in U.S. Securities pledge to the retirement of outstanding debt.
- The Capital Projects cash balance increased by \$187,679 to \$612,426. This increase can be attributed to additional revenues received from bond proceeds and underfund transfers which will be used in future capital projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance decreased by \$40,437 to \$651,361, due to capital projects completed during the fiscal year.

BUDGETARY HIGHLIGHTS

During the course of the year, the City did not amend its budget one time.

The City's receipts were \$2,341,142 less than budgeted. This was primarily due to the City receiving less intergovernmental receipts than anticipated.

Even though the City did not go over budget in total, disbursements in the public works, culture and recreation, community and economic development, general government, debt service and business type activities functions were \$11,331, \$24,091, \$158,467, \$58,070, \$4,424 and \$1,042 more than the amended budget amounts.

DEBT ADMINISTRATION

At June 30, 2014, the City had approximately \$16,705,000 in bonds and other long-term debt outstanding, compared to approximately \$13,980,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30, 2014	2013
General obligation bonds and notes	\$ 12,388	9,446
Revenue note	4,300	4,500
Lease-purchase agreement	17	34
Total	\$ 16,705	13,980

The City refinanced the Annual Appropriation Corporate Purpose 2007 note in fiscal year 2014 and is currently holding \$3,042,000 in U.S. Securities dedicated to the retirement of the debt in fiscal year 2015.

The amount of general obligation debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, taken from the last county tax list. The City's debt limit, based upon said valuation, amounts to the following:

Actual Value of Property, 2012	\$ 253,580,849
Debt Limit	<u>0.05</u>
	<u>\$ 12,679,042</u>

The City's outstanding general obligation debt of \$12,388,000 is below the constitutional debt limit of \$12,679,042.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates, and fees that will be charged for various City activities. One issue the City intends to monitor closely is the impact of the Commercial/Industrial and Multi-Residential property tax rollback in future fiscal years.

These indicators were taken into account when adopting the budget for fiscal year 2015. Rather than opting for a levy rate neutral budget, the City Council opted to levy a tax revenue neutral budget and make adjustments to garbage fees and sewer rates to ensure adequate coverage.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayer, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ty Wheeler, City Administrator/Clerk, 115 N Fillmore, Box 465, Osceola, IA 50213.

Basic Financial Statements

City of Osceola

Exhibit A

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

Functions / Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government		
					Governmental Activities	Business Type Activities	Component Units
Primary Government:							
Governmental activities:							
Public safety	\$ 1,140,064	53,315	60,446	-	(1,026,303)	-	(1,026,303)
Public works	1,273,154	403,882	492,179	-	(377,093)	-	(377,093)
Culture and recreation	791,516	145,400	-	-	(646,116)	-	(646,116)
Community and economic development	1,432,539	51,370	-	-	(1,381,169)	-	(1,381,169)
General government	645,175	8,243	-	-	(636,932)	-	(636,932)
Debt service	1,458,333	-	-	-	(1,458,333)	-	(1,458,333)
Capital projects	1,090,797	-	-	121,676	(969,121)	-	(969,121)
Total governmental activities	7,831,578	662,210	552,625	121,676	(6,495,067)	-	(6,495,067)
Business type activities:							
Sewer	1,179,584	1,183,161	-	-	-	3,577	3,577
Total business type activities	1,179,584	1,183,161	-	-	-	3,577	3,577
Total Primary Government	\$ 9,011,162	1,845,371	552,625	121,676	(6,495,067)	3,577	(6,491,490)
Component Units:							
Osceola Public Library Foundation	\$ 16,473	-	38,943	-			22,470
Osceola Volunteer Firefighter's Association	5,520	-	5,171	-			(349)
Osceola Municipal Waterworks	2,031,447	1,386,254	-	86,614			(558,579)
Total Component Units	\$ 2,053,440	1,386,254	44,114	86,614			(536,458)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					1,856,363	-	1,856,363
Debt service					549,935	-	549,935
Tax increment financing					536,385	-	536,385
Hotel motel tax					272,592	-	272,592
Local option sales tax					775,096	-	775,096
Gaming wager tax					1,096,269	-	1,096,269
Other city tax					7,788	-	7,788
Unrestricted interest on investments					32,918	30	32,948
Rent income					-	-	-
Sale of real estate					-	-	-
Insurance reimbursement					-	-	-
Bond proceeds					4,097,855	-	4,097,855
Gain on sale of investments					16,386	-	16,386
Miscellaneous					30,367	1,585	31,952
Transfers					45,629	(45,629)	-
Total general receipts and transfers					9,317,583	(44,014)	9,273,569
Change in cash basis net position					2,822,516	(40,437)	2,782,079
Cash basis net position beginning of year					3,272,611	691,798	3,964,409
Cash basis net position end of year					\$ 6,095,127	651,361	6,746,488
Cash Basis Net Position							
Restricted:							
Nonexpendable:							
Library					\$ 1,759	-	1,759
Cemetery perpetual care					103,262	-	103,262
Expendable:							
Local option sales tax					47,496	-	47,496
Tax increment financing					669,751	-	669,751
Streets					41,860	309,366	351,226
Capital projects					612,426	-	612,426
Debt service					3,042,671	-	3,042,671
Other purposes					355,831	-	355,831
Unrestricted					1,220,071	341,995	1,562,066
Total cash basis net position					\$ 6,095,127	651,361	6,746,488

See notes to financial statements.

City of Osceola

Exhibit B

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2014

	Special Revenue						
	General	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	Capital Projects	Nonmajor	Total
Receipts:							
Property tax	\$1,567,570	-	-	549,935	-	288,794	2,406,299
Tax increment financing	-	536,385	-	-	-	-	536,385
Other city tax	1,376,650	-	775,096	-	-	-	2,151,746
Licenses and permits	59,612	-	-	-	-	-	59,612
Use of money and property	48,527	-	-	-	-	4,254	52,781
Intergovernmental	60,446	-	-	-	121,676	492,179	674,301
Charges for service	534,780	-	-	-	-	-	534,780
Miscellaneous	89,848	-	-	-	-	4,858	94,706
Total receipts	3,737,433	536,385	775,096	549,935	121,676	790,085	6,510,610
Disbursements:							
Operating:							
Public safety	915,220	-	-	-	-	224,844	1,140,064
Public works	546,487	-	42,488	-	-	684,179	1,273,154
Culture and recreation	671,022	-	-	-	-	120,494	791,516
Community and economic development	351,038	274,195	779,884	-	-	27,422	1,432,539
General government	584,838	-	-	-	-	60,337	645,175
Debt service	-	-	-	1,458,333	-	-	1,458,333
Capital projects	-	-	-	-	1,090,797	-	1,090,797
Total disbursements	3,068,605	274,195	822,372	1,458,333	1,090,797	1,117,276	7,831,578
Excess (deficiency) of receipts over (under) disbursements	668,828	262,190	(47,276)	(908,398)	(969,121)	(327,191)	(1,320,968)
Other financing sources (uses):							
Proceeds of refunding bonds, net of \$11,155 premium	-	-	-	3,042,671	-	-	3,042,671
Bond proceeds	-	-	-	-	1,055,184	-	1,055,184
Operating transfers in	-	-	-	908,398	101,616	165,653	1,175,667
Operating transfers out	(660,706)	(469,332)	-	-	-	-	(1,130,038)
Total other financing sources (uses)	(660,706)	(469,332)	-	3,951,069	1,156,800	165,653	4,143,484
Change in cash balances	8,122	(207,142)	(47,276)	3,042,671	187,679	(161,538)	2,822,516
Cash balances beginning of year	1,239,808	876,893	94,772	-	424,747	636,391	3,272,611
Cash balances end of year	\$1,247,930	669,751	47,496	3,042,671	612,426	474,853	6,095,127
Cash Basis Fund Balances							
Nonspendable:							
Library	\$ -	-	-	-	-	1,759	1,759
Cemetery perpetual care	-	-	-	-	-	103,262	103,262
Restricted for:							
Local option sales tax	-	-	47,496	-	-	-	47,496
Tax increment financing	-	669,751	-	-	-	-	669,751
Streets	-	-	-	-	-	41,860	41,860
Capital projects	-	-	-	-	612,426	-	612,426
Debt service	-	-	-	3,042,671	-	-	3,042,671
Other purposes	27,859	-	-	-	-	327,972	355,831
Unassigned	1,220,071	-	-	-	-	-	1,220,071
Total cash basis fund balances	\$1,247,930	669,751	47,496	3,042,671	612,426	474,853	6,095,127

See notes to financial statements.

City of Osceola

Exhibit C

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2014

	Enterprise Sewer
Operating receipts:	
Charges for service	\$ 1,183,161
Miscellaneous	1,585
Total operating receipts	<u>1,184,746</u>
Operating disbursements:	
Business type activities	698,740
Total operating disbursements	<u>698,740</u>
Excess of operating receipts over operating disbursements	<u>486,006</u>
Non-operating receipts (disbursements):	
Interest on investments	30
Debt service	(306,504)
Capital projects	(174,340)
Net non-operating receipts (disbursements)	<u>(480,814)</u>
Excess of receipts over disbursements	<u>5,192</u>
Other financing sources (uses):	
Operating transfers in	15,820
Operating transfers out	(61,449)
Total other financing sources (uses)	<u>(45,629)</u>
Change in cash balances	(40,437)
Cash balances beginning of year	<u>691,798</u>
Cash balances end of year	<u>\$ 651,361</u>
Cash Basis Fund Balances	
Restricted for debt service	\$ 309,366
Unrestricted	<u>341,995</u>
Total cash basis fund balances	<u>\$ 651,361</u>

See notes to financial statements.

City of Osceola

Exhibit D

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Fiduciary Fund

As of and for the year ended June 30, 2014

	Agency Friends of Depot
Additions:	
None	\$ -
Total additions	-
Deductions:	
None	-
Total deductions	-
Change in cash balances	-
Cash balances beginning of year	20,746
Cash balances end of year	\$ 20,746

See notes to financial statements.

City of Osceola

Exhibit E

Combining Cash Basis Statement of Activities and Net Position
Discretely Presented Component Units

As of and for the year ended June 30, 2014

	Osceola Public Library Foundation	Osceola Volunteer Firefighter's Association	Osceola Municipal Waterworks	Total
Disbursements	\$ 16,473	5,520	2,031,447	2,053,440
Program receipts:				
Charges for service	-	-	1,386,254	1,386,254
Operating grants, contributions and restricted interest	38,943	5,171	-	44,114
Capital grants, contributions and restricted interest	-	-	86,614	86,614
Total program receipts	38,943	5,171	1,472,868	1,516,982
Net program (expenses) receipts	22,470	(349)	(558,579)	(536,458)
General receipts:				
Unrestricted interest on investments	-	-	2,083	2,083
Rent income	-	-	261,808	261,808
Sale of real estate	-	-	70,732	70,732
Insurance reimbursement	-	-	2,243	2,243
Miscellaneous	-	-	83,019	83,019
Total general receipts	-	-	419,885	419,885
Change in cash basis net position	22,470	(349)	(138,694)	(116,573)
Cash basis net position beginning of year	1,215,259	2,788	617,109	1,835,156
Cash basis net position end of year	\$ 1,237,729	2,439	478,415	1,718,583
Cash Basis Net Position				
Restricted:				
Debt service	\$ -	-	399	399
Other purposes	1,237,729	2,439	28,531	1,268,699
Unrestricted	-	-	449,485	449,485
Total cash basis net position	\$ 1,237,729	2,439	478,415	1,718,583

See notes to financial statements.

City of Osceola

Notes to Financial Statements

June 30, 2014

(1) **Summary of Significant Accounting Policies**

The City of Osceola (City) is a political subdivision of the State of Iowa located in Clarke County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general governmental services. The City also provides sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Units

- The Osceola Public Library Foundation was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Osceola Public Library Foundation is to support the activities of the Osceola, Iowa public library.
- The Osceola Volunteer Firefighter's Association was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Osceola Volunteer Firefighter's Association is to support the activities of the Osceola, Iowa fire department.
- The Osceola Waterworks (Waterworks) is presented in a separate column to emphasize it is legally separate from the City, but is financially accountable to the City or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Waterworks was established to operate the City's waterworks facilities. The Waterworks is governed by a five member Board of Trustees appointed by the Mayor and approved by the City Council. Title to all property of the Waterworks is held in the name of the City. A financial benefit/burden relationship exists between the City and the Waterworks in that the City is authorized by statute to issue general obligation debt for a City utility and may certify taxes for the payment of the debt.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Clarke County Reservoir Commission, Clarke County Assessor's Conference Board, Emergency Management Commission, Clarke County Development Corporation, the Main Street Board and the Clarke County Jail and Law Enforcement Center.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds, the proprietary fund and the fiduciary fund. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for the local option sales tax collections to be used for street improvements and for the Clarke County Water Reservoir.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

Additionally, the City reports a fiduciary fund to account for assets held by the City as an agent for the Friends of Depot.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, debt service and business type activities functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2014, an escrow agent held U.S. Treasury notes for the City with a carrying amount and fair value of \$3,042,671 which mature in June 2015.

During the fiscal year, the City also owned corporate stock. At June 30, 2014, the City had disposed of this corporate stock. Corporate stock is not an allowable investment according to the Code of Iowa.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$309,366 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds and Notes Payable**

Primary Government

Annual debt service requirements to maturity for general obligation bonds and notes, and the revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 4,140,600	364,635	200,000	104,504	4,340,600	469,139
2016	1,096,000	195,474	205,000	102,704	1,301,000	298,178
2017	1,131,000	174,854	205,000	100,449	1,336,000	275,303
2018	1,125,000	152,286	210,000	97,784	1,335,000	250,070
2019	1,145,000	128,245	210,000	94,634	1,355,000	222,879
2020	1,175,000	102,225	215,000	90,854	1,390,000	193,079
2021	685,000	74,225	220,000	86,984	905,000	161,209
2022	710,000	56,220	225,000	82,364	935,000	138,584
2023	730,000	37,290	230,000	77,301	960,000	114,591
2024	340,000	16,253	235,000	71,781	575,000	88,034
2025	110,000	3,025	240,000	65,613	350,000	68,638
2026	-	-	250,000	59,313	250,000	59,313
2027	-	-	255,000	51,813	255,000	51,813
2028	-	-	265,000	44,162	265,000	44,162
2029	-	-	270,000	36,213	270,000	36,213
2030	-	-	280,000	28,112	280,000	28,112
2031	-	-	290,000	19,012	290,000	19,012
2032	-	-	295,000	9,588	295,000	9,588
	\$ 12,387,600	1,304,732	4,300,000	1,223,185	16,687,600	2,527,917

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, \$20,991 of general obligation bond principal was paid from the Enterprise, Sewer Fund during the year ended June 30, 2014.

General Obligation Corporate Purpose and Refunding Bonds

In June 2014, the City issued \$4,035,000 of general obligation corporate purpose and refunding bonds, Series 2014. The bonds were issued for the crossover advance refunding of \$2,905,000 of general obligation corporate purpose bonds capital loan notes dated August 1, 2007. The notes will be called on June 1, 2015. In addition, the balance of money received from this bond, or \$1,003,483 will be used for constructing street, sanitary sewer, storm sewer and sidewalk improvements, and constructing improvements to the municipal parking lot at the City marina.

The City entered into an escrow agreement whereby the proceeds from the general obligation refunding bonds were converted into U.S. government securities. These securities were placed in an escrow account for the express purpose of paying the principal and interest on the refunded general obligation corporate purpose bonds as they become due. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the City. The transactions and balances of the escrow account are recorded by the City since the refunded debt is not considered extinguished.

The refunding was undertaken to reduce total debt service payments over the next nine years by \$339,739 and resulted in an economic gain of \$315,160.

Sewer Revenue Improvement and Refunding Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$4,700,000 of sewer revenue improvement and refunding bonds issued May 31, 2012. The bonds were issued for the purpose of financing construction of improvements to the municipal sanitary sewer system and refunding the City's outstanding Series 2003 and 1994 sewer revenue bonds. The bonds are payable solely and only out of the net earnings of the Sewer Utility System and are payable through 2032. Annual principal and interest payments on the bonds are expected to require less than 64% of net receipts. The total principal and interest remaining to be paid on the bonds is \$5,223,185. For the current year, principal and interest paid and total customer net receipts were \$306,004 and \$486,006, respectively.

The resolutions providing for the issuance of the sewer revenue improvement and refunding bonds include the following provisions:

- (a) The bond will only be redeemed from the future earnings of the City and the bond holder holds a lien on the future earnings of the funds.
- (b) The City shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a sewer revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bond.
- (d) A sewer reserve fund shall be established and maintained in the amount of \$309,313. The reserve fund will be used for the payment of principal and interest whenever funds on deposit in the sinking fund are insufficient.
- (e) All users of the system, including the City, are required to be charged for service.

The City's did not fund, on a monthly basis, the sewer revenue bond sinking account as required. Also, the City is not being charged for sewer service as required.

Discretely Presented Component Units

Bonds Payable

Annual debt service requirements to maturity for the Osceola Municipal Waterworks water revenue bonds payable are as follows:

Year Ending June 30,	Water Revenue Bonds		Total
	Principal	Interest	Total
2015	\$ 210,000	37,258	247,258
2016	216,000	33,582	249,582
2017	222,000	29,803	251,803
2018	229,000	25,918	254,918
2019	236,000	21,910	257,910
2020	243,000	17,780	260,780
2021	250,000	13,528	263,528
2022	258,000	9,153	267,153
2023	265,000	4,638	269,638
	<u>\$ 2,129,000</u>	<u>193,570</u>	<u>2,322,570</u>

Water Revenue Bonds

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$4,066,000 in water revenue bonds issued in 2002. Proceeds from the bonds provided financing for the construction of water main replacements. The bonds are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the bonds are expected to require more than 100 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,322,570. For the current year, principal and interest paid and total customer net receipts were \$243,810 and \$40,632, respectively.

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.
- (e) All users of the system, including the City, shall pay for usage.

During fiscal year 2014, sufficient user rates were not established at a level to produce net revenues equal to at least 110% of the principal and interest on the revenue bonds as they become due. In addition, the balance in the water revenue bond and interest sinking account was deficient at June 30, 2014. Also, the City is not being charged for service as required.

(4) **Lease Purchase Agreement**

On September 9, 2009, the City entered into a lease-purchase agreement to lease a motor grader.

On September 9, 2014, there is one lease payment of \$18,225 due, of which \$17,425 is principal and \$800 is interest. This lease purchase is scheduled to be paid off on September 9, 2014.

Payments under lease-purchase agreement totaled \$18,225 during the year ended June 30, 2014.

(5) **Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$141,630, \$152,977 and \$153,162, respectively, equal to the required contributions for each year.

(6) **Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 32 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the City and the plan members are \$557 for single coverage, \$1,113 for employee/spouse coverage, \$1,058 for employee/dependent coverage, and \$1,670 for family coverage. For the year ended June 30, 2014, the City contributed \$344,101 and plan members eligible for benefits contributed \$25,236 to the plan.

(7) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory hours payable to employees at June 30, 2014, primarily relating to the General Fund is as follows:

Type of Benefit	Amount
Vacation	\$ 81,953
Compensatory	21,188
Total	<u>\$ 103,141</u>

The liability has been computed based on the rates of pay in effect at June 30, 2014.

(8) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:		
Road Use Tax	General	\$ 112,124
Employee Benefits	General	53,529
		<u>165,653</u>
Debt Service	General	418,075
	Special Revenue:	
	Urban Renewal Tax Increment	469,332
	Enterprise:	
	Sewer	20,991
		<u>908,398</u>
Capital Projects	General	61,158
	Enterprise:	
	Sewer	40,458
		<u>101,616</u>
Enterprise:		
Sewer	General	15,820
		<u>\$ 1,191,487</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) **Casino Lease**

The City of Osceola and the Waterworks have entered into a lease agreement with HGI-Lakeside, LLC and its successors (Casino) for certain real estate surrounding West Lake and the use of the lake in the operation of a casino. Unless the Casino terminates the lease, this lease is renewable by the Casino every five years, with the term of the lease extending through the year 2047.

As part of this lease, the Waterworks is to receive 1.25% of adjusted gross gambling receipts per year from the Casino. The total amount received by the City in fiscal year 2014 in relation to this was \$604,675. The City is also receiving 0.5% of adjusted gross gambling receipts from the Casino. The total amount received by the City in fiscal year 2014 in relation to this was \$245,797. In addition, the City is also receiving an additional 0.5% of adjusted gross gambling receipts from the Casino. These receipts are paid direct by the Casino to a bank account controlled by the Clarke County Reservoir Commission. The total amount received by the City in fiscal year 2014 in relation to this was \$245,797.

(10) **Rebate Agreements**

The City has entered into various rebate agreements to assist in certain urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction of buildings and certain infrastructure improvements by the developers. Certain agreements also require the developer to certify specific employment requirements are met.

The total to be paid by the City under the agreements is not to exceed \$2,731,699. The total amount rebated during the year ended June 30, 2014 was \$274,196. The City has rebated a total of \$2,302,614 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2014 was \$429,085.

These agreements are not a general obligation of the City. In addition, the agreements are not subject to the constitutional debt limitation of the City because these agreements are subject to annual appropriation by the City Council.

(11) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Contingencies

The City participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

The City entered into an agreement with Clarke County, Clarke County Development Corporation, and The Village, Inc. This agreement states that the City will guarantee 25% of the United States Department of Agriculture loan in relation to construction and equipping of The Village, Inc. City personnel believe this agreement can be voided, at which time the City would have no potential liability. However, in fiscal year 2014, the City paid \$4,788 to Clarke County to satisfy the City's portion of the loan from the United States Department of Agriculture.

(13) Commitments

The City has entered into an agreement with the Waterworks for sewer and garbage billing services. The City agrees to pay the Waterworks \$1,500 per month for fiscal years 2015-2017, and \$1,600 per month for fiscal years 2018-2020.

The City entered into an agreement with the South Central Iowa landfill Agency (Agency) which permits the City's solid waste contractor to dispose of the waste at the Agency. Since the City is not a member of the Agency, the City's agreement with the Agency states that the City will pay \$5,000 per month until the amount of \$350,000 is paid. At June 30, 2014, the City has paid \$180,000 toward this obligation, and will owe an additional \$170,000 until paid. The total amount paid by the City to the Agency in fiscal year 2014 was \$60,000 in relation to this agreement.

The City entered into an agreement with a private contractor for residential solid waste collection. The agreement is through September 30, 2018. The amount paid to the contractor by the City is a set amount per household, and can be increased each year by the change in the consumer price index. In addition, the amount paid by the contractor can also be increased if the dumping fees at the landfill are increased. The total amount paid to the private contractor by the City for residential solid waste collection was \$303,610 in fiscal year 2014.

The City pays its local option sales tax receipts to the Clarke County Reservoir Commission (Commission). The City will pay the Commission all of its local option sales tax receipts until all the debt incurred by the Commission is fully paid. The total local option sales tax receipts paid by the City to the Commission totaled \$775,096 in fiscal year 2014.

The City has entered into various construction projects for infrastructure repair and construction. As of June 30, 2014, approximately \$991,000 remains to be paid on these projects. This work will be paid for as work progresses in fiscal year 2015. The City intends to pay for these projects with federal grants and from existing cash reserves.

The City received a \$600,000 federal grant, with the City providing \$1,256,500 in local match. As of the date the financial statements were available to be issued, minimal costs were incurred on this project, as this project was still in the design and engineering phase.

(14) Subsequent Events

The City has evaluated all subsequent events through March 31, 2015, the date the financial statements were available to be issued.

In fiscal year 2015, the City issued \$116,625 in a lease-purchase obligation.

The City awarded contracts totaling approximately \$740,000 for airport and infrastructure projects in fiscal year 2015. The City intends to pay for these projects with federal grants and from existing cash reserves.

(15) Restatements

The beginning cash balances were restated to reflect the proper balances and the proper classification between accounts and funds. The restatements are as follows:

	Balances at July 1, 2013, as previously reported	Restatements	Balances at July 1, 2013 as restated
Governmental activities net position	\$ 2,893,018	379,593	3,272,611
Component unit net position:			
Osceola Volunteer Firefighter's Association	-	2,788	2,788
Osceola Municipal Waterworks	589,048	28,061	617,109
General Fund	1,198,794	41,014	1,239,808
Special Revenue Funds:			
Police Forfeiture	-	9,624	9,624
Library	-	327,812	327,812
Permanent Funds:			
Library	-	1,759	1,759
Cemetery Perpetual Care	102,848	(616)	102,232
Fiduciary Funds:			
Non Expendable Fund:			
Friends of Depot	20,746	(20,746)	-
Expendable Funds:			
Library	329,571	(329,571)	-
Police Forfeiture	9,624	(9,624)	-
Agency Fund:			
Friends of Depot	-	20,746	20,746

(16) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

Other Information

City of Osceola

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Component Units Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts Final	Final to Total Variance
Receipts:							
Property tax	\$ 2,406,299	-	-	-	2,406,299	2,364,240	42,059
Tax increment financing	536,385	-	-	-	536,385	537,448	(1,063)
Other city tax	2,151,746	-	-	-	2,151,746	2,163,846	(12,100)
Licenses and permits	59,612	-	-	-	59,612	69,600	(9,988)
Use of money and property	52,781	30	263,891	-	316,702	20,000	296,702
Intergovernmental	674,301	-	-	-	674,301	2,591,070	(1,916,769)
Charges for service	534,780	1,183,161	2,938,468	1,564,255	3,092,154	4,000,161	(908,007)
Miscellaneous	94,706	1,585	213,747	44,114	265,924	97,900	168,024
Total receipts	6,510,610	1,184,776	3,416,106	1,608,369	9,503,123	11,844,265	(2,341,142)
Disbursements:							
Public safety	1,140,064	-	5,520	5,520	1,140,064	1,294,903	154,839
Public works	1,273,154	-	-	-	1,273,154	1,261,823	(11,331)
Culture and recreation	791,516	-	16,473	16,473	791,516	767,425	(24,091)
Community and economic development	1,432,539	-	-	-	1,432,539	1,274,072	(158,467)
General government	645,175	-	-	-	645,175	587,105	(58,070)
Debt service	1,458,333	-	-	-	1,458,333	1,453,909	(4,424)
Capital projects	1,090,797	-	-	-	1,090,797	3,156,278	2,065,481
Business type activities	-	1,179,584	3,583,661	1,552,214	3,211,031	3,209,989	(1,042)
Total disbursements	7,831,578	1,179,584	3,605,654	1,574,207	11,042,609	13,005,504	1,962,895
Excess (deficiency) of receipts over (under) disbursements	(1,320,968)	5,192	(189,548)	34,162	(1,539,486)	(1,161,239)	(378,247)
Other financing sources, net	4,143,484	(45,629)	72,975	-	4,170,830	639,050	3,531,780
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	2,822,516	(40,437)	(116,573)	34,162	2,631,344	(522,189)	3,153,533
Balances beginning of year	3,272,611	691,798	1,835,156	1,218,047	4,581,518	4,215,025	366,493
Balances end of year	\$ 6,095,127	651,361	1,718,583	1,252,209	7,212,862	3,692,836	3,520,026

See accompanying independent auditor's report.

City of Osceola

Notes to Other Information - Budgetary Reporting

June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, debt service and business type activities functions.

Supplementary Information

City of Osceola

Schedule 1

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2014

	Special Revenue				Permanent		
	Road Use Tax	Employee Benefits	Library	Police Forfeiture	Library	Cemetery Perpetual Care	Total
Receipts:							
Property tax	\$ -	288,794	-	-	-	-	288,794
Use of money and property	-	-	4,249	5	-	-	4,254
Intergovernmental	492,179	-	-	-	-	-	492,179
Miscellaneous	3,598	-	230	-	-	1,030	4,858
Total receipts	495,777	288,794	4,479	5	-	1,030	790,085
Disbursements:							
Operating:							
Public safety	-	224,344	-	500	-	-	224,844
Public works	566,875	117,304	-	-	-	-	684,179
Culture and recreation	-	107,046	13,448	-	-	-	120,494
Community and economic development	-	27,422	-	-	-	-	27,422
General government	-	60,337	-	-	-	-	60,337
Total disbursements	566,875	536,453	13,448	500	-	-	1,117,276
Excess (deficiency) of receipts over (under) disbursements	(71,098)	(247,659)	(8,969)	(495)	-	1,030	(327,191)
Other financing sources:							
Operating transfers in	112,124	53,529	-	-	-	-	165,653
Total other financing sources (uses)	112,124	53,529	-	-	-	-	165,653
Change in cash balances	41,026	(194,130)	(8,969)	(495)	-	1,030	(161,538)
Cash balances beginning of year	834	194,130	327,812	9,624	1,759	102,232	636,391
Cash balances end of year	\$ 41,860	-	318,843	9,129	1,759	103,262	474,853
Cash Basis Fund Balances							
Nonspendable:							
Library	\$ -	-	-	-	1,759	-	1,759
Cemetery perpetual care	-	-	-	-	-	103,262	103,262
Restricted for:							
Streets	41,860	-	-	-	-	-	41,860
Other purposes	-	-	318,843	9,129	-	-	327,972
Total cash basis fund balances	\$ 41,860	-	318,843	9,129	1,759	103,262	474,853

See accompanying independent auditor's report.

City of Oscoda

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds and Notes-									
Corporate Purpose	September 12, 2003	2.50 to 4.30%	\$ 500,000	125,000	-	60,000	65,000	5,315	-
Corporate Purpose	August 1, 2007	4.00 to 5.00%	4,500,000	3,480,000	-	280,000	3,200,000	165,266	-
Corporate Purpose	August 1, 2009	1.25 to 4.40%	2,750,000	2,135,000	-	165,000	1,970,000	82,040	-
Fire Truck	April 2, 2010	3.36%	751,533	315,271	-	154,671	160,600	11,352	-
Refunding	November 30, 2011	0.65 to 2.10%	3,360,000	3,360,000	-	465,000	2,895,000	47,190	-
Sewer Improvement Bond	February 15, 2013	1.75%	101,000	30,300	51,700	20,000	62,000	991	-
Corporate Purpose and Refunding Bonds	June 17, 2014	2.00 to 2.75%	4,035,000	-	4,035,000	-	4,035,000	-	-
Total				\$ 9,445,571	4,086,700	1,144,671	12,387,600	312,154	-
Revenue Bonds-									
Sewer Revenue Improvement and Refunding	May 31, 2012	0.60 to 3.25%	\$ 4,700,000	4,500,000	-	200,000	4,300,000	106,004	-
Lease Purchase Agreement-									
Equipment	September 9, 2009	4.50%	\$ 79,800	34,075	-	16,650	17,425	1,575	-

See accompanying independent auditor's report.

City of Osceola
Bond and Note Maturities

Schedule 3

June 30, 2014

General Obligation Bonds and Notes														
Year Ending June 30,	Corporate Purpose Issued September 12, 2003		Corporate Purpose Issued August 1, 2007		Corporate Purpose Issued August 1, 2009		Fire Truck Issued April 2, 2010		Refunding Issued November 30, 2011		Sewer Improvement Bond Issued February 15, 2013		Corporate Purpose and Refunding Bonds Issued June 17, 2014	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2015	4.30%	\$ 65,000	4.5-5.0%	\$ 3,200,000	3.15%	\$ 165,000	3.36%	\$ 160,600	0.90%	\$ 470,000	1.75%	\$ 20,000	2.00%	\$ 60,000
2016	-	-	-	-	3.40%	170,000	-	-	1.15%	470,000	1.75%	21,000	2.00%	435,000
2017	-	-	-	-	3.60%	180,000	-	-	1.40%	480,000	1.75%	21,000	2.00%	450,000
2018	-	-	-	-	3.75%	185,000	-	-	1.65%	485,000	-	-	2.00%	455,000
2019	-	-	-	-	3.90%	190,000	-	-	1.90%	490,000	-	-	2.00%	465,000
2020	-	-	-	-	4.00%	200,000	-	-	2.10%	500,000	-	-	2.00%	475,000
2021	-	-	-	-	4.10%	205,000	-	-	-	-	-	-	2.00%	480,000
2022	-	-	-	-	4.20%	215,000	-	-	-	-	-	-	1.00%	495,000
2023	-	-	-	-	4.30%	225,000	-	-	-	-	-	-	2.25%	505,000
2024	-	-	-	-	4.40%	235,000	-	-	-	-	-	-	2.75%	105,000
2025	-	-	-	-	-	-	-	-	-	-	-	-	2.75%	110,000
		<u>\$ 65,000</u>		<u>\$ 3,200,000</u>		<u>\$ 1,970,000</u>		<u>\$ 160,600</u>		<u>\$ 2,895,000</u>		<u>\$ 62,000</u>		<u>\$ 4,035,000</u>
														<u>\$ 12,387,600</u>

Revenue Bonds		
Sewer Revenue Improvement and Refunding		
Year Ending June 30,	Issued May 31, 2012	
	Interest Rates	Amount
2015	0.900%	\$ 200,000
2016	1.100%	205,000
2017	1.300%	205,000
2018	1.500%	210,000
2019	1.800%	210,000
2020	1.800%	215,000
2021	2.100%	220,000
2022	2.250%	225,000
2023	2.400%	230,000
2024	2.625%	235,000
2025	2.625%	240,000
2026	3.000%	250,000
2027	3.000%	255,000
2028	3.000%	265,000
2029	3.000%	270,000
2030	3.250%	280,000
2031	3.250%	290,000
2032	3.250%	295,000
		\$ 4,300,000

See accompanying independent auditor's report.

City of Osceola

Schedule 4

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Receipts:										
Property tax	\$ 2,406,299	2,315,379	2,226,483	1,892,950	2,102,099	1,895,269	1,712,784	1,682,743	1,592,606	1,638,777
Tax increment financing	536,385	640,381	895,130	1,781,622	1,057,921	1,404,735	789,314	678,536	603,981	513,847
Other city tax	2,151,746	1,972,307	1,999,273	1,757,377	1,149,150	1,091,088	769,961	753,174	552,620	620,895
Licenses and permits	59,612	126,530	90,066	74,672	82,916	12,608	13,051	11,677	15,773	19,346
Use of money and property	52,781	20,271	35,812	120,671	221,638	150,883	357,239	1,382,319	1,197,582	1,041,928
Intergovernmental	674,301	849,000	547,428	1,277,390	1,004,665	905,952	873,023	825,723	851,667	1,003,840
Charges for service	534,780	571,809	649,790	496,799	1,408,787	1,474,333	1,379,026	530,078	435,661	393,136
Miscellaneous	94,706	58,618	105,545	249,634	605,676	114,691	222,955	340,819	915,980	3,382,729
Total	\$ 6,510,610	6,554,295	6,549,527	7,651,115	7,632,852	7,049,559	6,117,353	6,205,069	6,165,870	8,614,498
Disbursements:										
Operating:										
Public safety	\$ 1,140,064	1,102,342	993,430	925,005	895,638	806,140	920,333	778,792	748,843	776,541
Public works	1,273,154	1,083,128	1,158,217	1,516,706	948,194	886,624	1,185,219	1,327,025	1,528,242	1,317,761
Culture and recreation	791,516	744,244	770,405	724,842	734,817	674,463	761,378	829,558	726,759	671,715
Community and economic development	1,432,539	5,066,991	1,497,676	1,261,826	1,309,821	1,712,442	609,503	310,974	165,339	322,661
General government	645,175	791,599	811,127	666,588	614,904	615,453	574,462	919,082	745,378	753,168
Debt service	1,458,333	1,478,480	1,541,536	1,547,240	1,351,643	1,080,663	1,188,129	931,079	2,087,209	502,784
Capital projects	1,090,797	1,546,448	1,248,400	2,785,860	2,072,884	1,471,827	4,172,811	1,629,160	4,152,489	1,483,962
Total	\$ 7,831,578	11,813,232	8,020,791	9,428,067	7,927,901	7,247,612	9,411,835	6,725,670	10,154,259	5,828,592

See accompanying independent auditor's report.

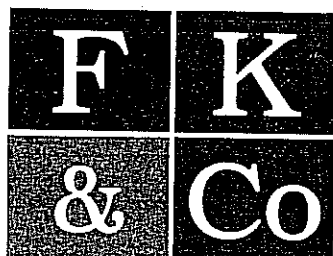
Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
U.S. Department of Justice: Public Safety Partnership and Community Policing Grants	16.710	2010-UMWX0092	\$ 54,361
U.S. Department of Transportation: Federal Aviation Administration Airports Division: Airport Improvement Program	20.106	3-19-0108-012-2013 3-19-0108-013-2014	232,217 22,864 <u>255,081</u>
Total - Direct			<u>309,442</u>
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Economic Development Authority: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (\$56,023 provided to subrecipients)	14.228	12-WS-022 13-DTR-005 13-WS-031	228,989 36,273 15,347 <u>280,609</u>
U.S. Department of Transportation: Iowa Department of Transportation: Highway Planning and Construction	20.205	13-STPES-104	25,941
U.S. Department of Transportation: Iowa Department of Public Safety: State and Community Highway Safety	20.600	14-402-MOOP	<u>4,200</u>
Total - Indirect			<u>310,750</u>
Total			<u>\$ 620,192</u>

Basis of Presentation - The Schedule of Expenditure of Federal Awards includes the federal grant activity of the City of Osceola and is presented on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Osceola, Iowa (City), as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 31, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-14 through II-D-14 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-E-14 through II-G-14 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

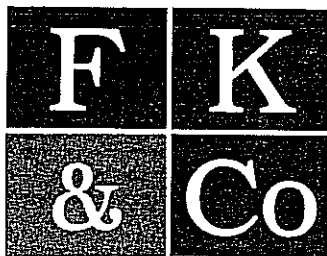
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



FALLER, KINCHELOE & CO., PLC

March 31, 2015
Des Moines, Iowa



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Osceola Iowa's (City) compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

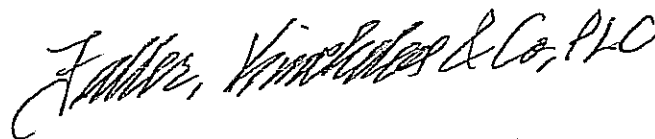
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified deficiencies in internal control over compliance we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-14 through III-D-14 to be a material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-E-14 through III-H-14 to be significant deficiencies.

The City's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



FALLER, KINCHELOE & CO., PLC

March 31, 2015
Des Moines, Iowa

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Significant deficiencies and material weaknesses in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii and CFDA Number 20.106 Airport Improvement Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Osceola did not qualify as a low-risk auditee.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-14 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although one to three individuals are involved in the accounting duties of the City of Osceola (City), there is insufficient segregation of duties to prevent one individual from having control over each of the following areas:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

For the Osceola Volunteer Firefighter's Association and the Osceola Public Library Foundation, one individual had control over each of the following areas:

- 1) Receipts – collecting, depositing, posting and reconciling.
- 2) Disbursements – preparing, recording and reconciling.
- 3) Cash – handling, reconciling and recording.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City, the Osceola Volunteer Firefighter's Association and the Osceola Public Library Foundation should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response and Corrective Action Planned – The City will review their control procedures to obtain the maximum internal control possible with the limited staff they have.

Conclusion – Response acknowledged.

II-B-14 Financial Reporting – Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The City does not have the internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting purposes. While this circumstance is not uncommon for most small governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Recommendation – With a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend the City continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles. However, it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

- II-C-14 Preparation of Schedule of Federal Awards – Through review of the City's grant activity and the process of gathering information for required reporting, we determined that there is a need for improvement in the procedures related to the preparation of the Schedule of Expenditure of Federal Awards (SEFA), including the accuracy of the CFDA numbers and the accuracy and completeness of expenditure amounts reported on the SEFA. The City does not have a centralized process to gather the information required to be reported under OMB Circular A-133. As a result, the schedule contained errors and omissions.

Recommendation – We recommend the City create a process and designate an individual to track and accurately report all information required to be included on the SEFA.

Response and Corrective Action Planned – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

- II-D-14 Material Adjustments - We proposed several adjusting journal entries that were material to the City's financial statements. Adjusting journal entries were made to properly record investments, receipts and disbursements not recorded, and to properly record Debt Service Fund transactions. Adjustments were subsequently made by the City to properly record these transactions on the City's financial statements.

Recommendation – We recommend the City implement procedures to ensure all balances, receipts and disbursements are properly recorded on the City's accounting records.

Response – We will attempt to implement these recommendations.

Conclusion – Response acknowledged.

- II-E-14 Timely Deposits – Receipts generally appear to be deposited only once per week, resulting in receipts not being deposited in a timely manner.

Recommendation – To safeguard cash, receipts should be deposited intact on a timely basis, preferably daily.

Response – We will attempt to implement these recommendations.

Conclusion – Response acknowledged.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

- II-F-4 Chart of Accounts – The City is not consistently following the Uniform Chart of Accounts for City Governments in Iowa as recommended by the City Finance Committee. For example, several disbursements were classified to the incorrect department, and other transactions were recorded in the incorrect fund.

Recommendation – The City should implement procedures to ensure all transactions are recorded in accordance with the Uniform Chart of Accounts.

Response – We will implement this to the best of our ability.

Conclusion – Response acknowledged.

- II-G-4 Annual Financial Report - The Annual Financial Report for the year ended June 30, 2014 did not include the separately maintained Osceola Municipal Waterworks financial activities for the year as required by Chapter 384.22 of the Code of Iowa. Also, as a result of audit adjustments, the receipts, disbursements and ending cash balance amounts on the Annual Financial Report did not agree to the audited financial statement amounts.

Recommendation - The Annual Financial Report should include financial activity for all City activities. In addition, procedures should be implemented to ensure all receipts, disbursements, and the ending cash balances are properly recorded on the Annual Financial Report.

Response – We will complete the Annual Financial Report correctly as required by Chapter 384.22 of the Code of Iowa.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Pass-through Agency Number: 12-WS-022, 13-DTR-005, 13-WS-031

Federal Award Year: 2012, 2013

U.S. Department of Housing and Urban Development

Passed through the Iowa Economic Development Authority

CFDA Number 20.106: Airport Improvement Program

Pass-through Agency Number: 3-19-0108-012-2013, 3-19-0108-013-2014

Federal Award Year: 2013, 2014

U.S. Department of Transportation

III-A-14 Preparation of Schedule of Federal Awards – The City does not have a centralized
(2014-001) process to gather the information required to be reported under OMB Circular A-133.
See item II-C-14.

III-B-14 Segregation of Duties over Federal Receipts – The City did not properly segregate
(2014-002) collection, deposit and record keeping for receipts, including those related to federal
programs. See item II-A-14.

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Pass-through Agency Number: 12-WS-022, 13-WS-031

Federal Award Year: 2012, 2013

U.S. Department of Housing and Urban Development

Passed through the Iowa Economic Development Authority

III-C-14 Subrecipient Monitoring – The City entered into an agreement with a Council of
(2014-003) Governments (administrative entity) to administer the Community Development Grant
Programs. When the City enters into such an agreement, the City effectively passes
down all federal requirements of the program to the administrative entity, except for
approving final reports and requesting funds. The agreement does not identify the
administrative entity as a subrecipient when, in fact, the administrative entity became a
subrecipient and must comply with Community Development Block Grant (CDBG)
program and OMB Circular A-133 requirements upon entering into the agreement. In
addition, upon entering into the agreement, the City is responsible for monitoring the
administrative entity for compliance with CDBG and OMB Circular A-133 requirements.

The City has not advised the administrative entity that they become a subrecipient upon execution of the agreement in which the administrative entity agrees to administer the program. In addition, the City has not performed any subrecipient monitoring procedures as required under OMB Circular A-133 in relation to the administrative entity.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Recommendation – The City should develop and implement policies and procedures to ensure the administrative entity is aware of the subrecipient relationship created when it enters into a subrecipient agreement to administer the program. In addition, the City should implement procedures to ensure that its subrecipient is monitored as required by OMB Circular A-133.

Response and Corrective Action Planned – We will contact the Iowa Economic Development Authority for guidance in relation to this.

Conclusion – Response acknowledged.

III-D-14
(2014-004) Engineer Procurement – The City did not request competitive proposals for the selection of the engineer on the two projects funded by the Community Development Grant Program. Instead, the City procured the engineering firm through sole source procurement for this project.

The Iowa Economic Development Authority (IEDA) Management guide requires that the IEDA approve, in advance, sole source procurement for contracts or purchases valued at \$25,000 or more. The engineer in question will be paid more than \$25,000 for these projects.

Recommendation – In the future, the City should implement procedures to ensure the IEDA Management guide is followed in relation to sole source procurement. In addition, the City should work with the IEDA in order to resolve this situation.

Response and Corrective Action Planned – We will consult with IEDA as to how best to handle this issue.

Conclusion – Response acknowledged.

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Pass-through Agency Number: 13-DTR-005
Federal Award Year: 2013
U.S. Department of Housing and Urban Development
Passed through the Iowa Economic Development Authority

III-E-14
(2014-005) Cash Management – The City held Community Development Block Grant funds of over \$100 in excess of 10 days. This is not allowed pursuant to the Community Development Block Grant requirements.

Recommendation – The City should implement procedures to ensure Community Development Block Grant funds of over \$100 are not held in excess of 10 days, as required by the Community Development Block Grant requirements.

Response and Corrective Action Planned – We will implement this recommendation.

Conclusion – Response acknowledged.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

III-F-14 (2014-006) Matching – As of June 30, 2014, the City's match provided for this project was less than the amount required as documented on the grant budget, as approved by the Iowa Economic Development Authority. The grant agreement with the Iowa Economic Development Authority requires the City to provide local match in the same ratio of local funds to total funds over the life of the project.

Recommendation – The City should implement procedures to ensure the local match is provided as required by the grant agreement.

Response and Corrective Action Planned – We will implement this recommendation. At the end of the project, we will ensure the local match provided meets or exceeds the amount as required by grant agreement.

Conclusion – Response acknowledged.

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Pass-through Agency Number: 12-WS-022

Federal Award Year: 2012

U.S. Department of Housing and Urban Development

Passed through the Iowa Economic Development Authority

CFDA Number 20.106: Airport Improvement Program

Pass-through Agency Number: 3-19-0108-012-2013

Federal Award Year: 2013

U.S. Department of Transportation

III-G-14 (2014-007) Notice of Public Hearing for Public Improvements – Even though the City published a notice of public hearing, the public hearing was not published between four and twenty days before the public hearing, as required by Chapter 26.12 and 362.3 of the Code of Iowa.

Recommendation – Before entering into a contract for a public improvement with an estimated total cost in excess of \$100,000, the City Council should hold a public hearing and give notice at least four but not more than twenty days prior to the hearing.

Response and Corrective Action Planned – We will implement this recommendation.

Conclusion – Response acknowledged.

CFDA Number 20.106: Airport Improvement Program

Pass-through Agency Number: 3-19-0108-012-2013

Federal Award Year: 2013

U.S. Department of Transportation

III-H-14 (2014-008) Bid Procedures – For a construction project, the newspaper publication on April 25, 2013 indicated that sealed bids on this project would be accepted until May 30, 2013. Subsequent to this date, the engineer issued an addendum which revised the sealed bid deadline to June 26, 2013, and then extended it again to July 17, 2013. However, these revised sealed bid deadline dates were not published in the newspaper.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Chapter 26 of the Code of Iowa requires that sealed bids be obtained for projects which meet the sealed bid criteria. Sealed bids were required to be obtained for this project. It would appear that by failing to publish in the newspaper the revised sealed bid deadline date, the City violated the intent of Chapter 26 of the Code of Iowa.

Recommendation – The City should implement procedures to ensure the Code of Iowa requirements are met in relation to obtaining sealed bids.

Response and Corrective Action Planned – We will implement this recommendation in the future.

Conclusion – Response acknowledged.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-14 Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, debt service and the business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

IV-B-14 Questionable Disbursements – No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-14 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-14 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-14 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-14 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not consistently document the vote of each member on split votes. Chapter 21.3 of the Code of Iowa requires the council minutes contain documentation sufficient to determine the vote of each member present.

Some council minutes and related claims were not published within fifteen days of the meeting. The City did not consistently publish a summary of all receipts, total disbursements from each fund, and some claims allowed. All of this is required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should document split council meeting votes by person. In addition, to ensure compliance with the Code of Iowa, all council minutes and claims should be published within fifteen days of the meeting, a summary of receipts should be published, total disbursements from each fund and all claims allowed should also be published.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

IV-G-14 Deposits and Investments – During the year, the City owned corporate stock, which is not a permissible investment in accordance with the Code of Iowa, nor with the City's investment policy.

Other than the above, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Recommendation – The City should no longer invest in corporate stock, in accordance with the Code of Iowa requirements.

Response – We will no longer own corporate stock.

Conclusion – Response acknowledged.

IV-H-14 Sewer Revenue Bonds – The following instances of non-compliance with the sewer revenue bond resolutions were noted:

- The sewer revenue bond resolutions require all users of the system, including the City, be charged for usage. The City is not currently charged for sewer usage.
- The sewer revenue bond resolutions require the City to make sufficient monthly transfers to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due. The City did not fund the sewer revenue bond sinking account each month as required.

Recommendation – The City should ensure all City departments pay for sewer usage, and should make transfers to the sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

IV-I-14 Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Enterprise, Sewer Fund to the Debt Service Fund for future funding contributions for general obligation bonds. Payment of the bonds should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response acknowledged.

IV-J-14 Emergency Fund Levy – Chapter 384.8 of the Code of Iowa provides a City may establish an Emergency Fund and transfers may be made from the Emergency Fund to the General Fund. The City levied property tax for the Emergency Fund, but recorded the property tax in the General Fund rather than establishing a separate fund.

Recommendation – The City should review this for compliance in the future.

Response – The City will record the amounts from the emergency levy to a special revenue fund in order to keep them separate.

Conclusion – Response acknowledged.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

IV-K-14 Compliance Issues – The City's liability tax levy appears to be excessive given the amount of liability insurance costs paid for by the City. The City levied approximately \$185,000 for liability insurance, but the total liability insurance cost was only approximately \$128,000. The Code of Iowa only allows a City to establish a liability insurance tax levy up to the amount needed for applicable liability insurance costs. It would not appear that the Code of Iowa allows a City to levy a tax for liability insurance purposes in order to fund the general operations of the City. In addition, the City pays the liability insurance costs from this levy for the sewer department. Costs incurred by the sewer operations for liability insurance coverage should be charged to those funds instead of the tax levy for liability insurance coverage.

In addition, it appears the City included employee benefits related to employee salaries paid from the Enterprise, Sewer Fund in its property tax levy. Per Iowa Administrative Code [545], Ch. 4, the employee benefits levy is only for employee benefits related to employee salaries paid from the General Fund and the Special Revenue, Road Use Tax Fund.

Recommendation – The City should implement procedures to ensure the tax levy for liability insurance be established at a rate which approximates the applicable liability insurance costs paid for by the City. In addition, costs incurred for liability insurance coverage for the sewer operations should be charged to those funds. Also, when the City calculates the employee benefits levy, the City should exclude employee benefits related to salaries paid from the Enterprise, Sewer Fund.

Response – We will implement these recommendations.

Conclusion - Response acknowledged.

IV-L-14 Local Option Sales Tax – The City paid \$4,788 to the County for the City's share of the daycare loan payment. Based on the requirements of the local option sales tax ballot referendum, it is questionable if the City can use these local option sales tax receipts to pay for the City's share of the daycare loan payment.

Recommendation – The City should implement procedures to ensure all local option sales tax receipts are spent in accordance with the local option sales tax referendum.

Response – We will implement this recommendation.

Conclusion - Response acknowledged.

IV-M-14 Garbage Rates – Garbage rates are not set by ordinance, as required by Chapter 384.84 of the Code of Iowa.

Recommendation – The City should establish garbage rates by ordinance as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

IV-N-14 Timely Filing of Claims – The City has to file reimbursement claims with the Iowa Economic Development Authority and the Federal Aviation Administration in order to obtain reimbursement from federal grants. The City is not timely filing these claims. For example, the City incurred several hundred thousand dollars of costs in relation to these grants, with some of these costs incurred in fiscal year 2012. However, as of June 30, 2014, these costs have not been claimed for reimbursement by the City.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Recommendation – The City should implement procedures to ensure all grant claim forms are filed on a timely basis.

Response – In fiscal year 2015, all claim forms have been filed. In addition, we will ensure that all claim forms are filed timely in the future.

Conclusion - Response acknowledged.

IV-O-14 Casino Lease – The City has various contracts and agreements with the Casino which states the City is to receive a total of 2.25% of the adjusted gross gambling receipts from the Casino. It does not appear the City has implemented procedures to ensure the monetary terms of this agreement with the Casino are met.

Recommendation – The City should implement procedures to ensure the monetary terms of the agreement with the Casino are met.

Response – We will evaluate this and determine the appropriate course of action.

Conclusion – Response accepted.

IV-P-14 Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. Chapter 403.19 of the Code of Iowa requires the date the City Council initially approved the debt be included on the TIF certification. During the fiscal year, the following concerns were noted in relation to TIF.

- For the economic development agreements, the City certified the total rebate amount to the County. The agreements state that the rebate shall be subject to annual appropriation. Until appropriated, these payments do not represent TIF debt and, accordingly should not have been certified as debt.
- The City did not certify some rebate and debt interest costs to the County, even though the City is using TIF funds to pay for these costs.
- The City certified some costs which do not appear to be allowable TIF related costs.
- Currently the City determines the amount of TIF rebate based on the total taxes paid. However, the economic development agreements state that the TIF rebates would be based on incremental property taxes. As a result, the City may have paid too much in TIF rebates.

Recommendation – The City should consult with TIF legal counsel to resolve the above issues.

Response – We believe we have fixed all of the above issues in fiscal year 2015.

Conclusion - Response acknowledged.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

IV-Q-14 Annual Urban Renewal Report – The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1.

However, the following exceptions were noted:

- The City's ending cash balances of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City's general ledger.
- The amount reported by the City as TIF debt outstanding was understated by \$589,020.

Recommendation – The City should ensure the cash balances and debt amounts reported on the Levy Authority Summary agree with the City's accounting records.

Response – These items will be corrected on next year's report.

Conclusion – Response acknowledged.